

CITY OF KELSO
Cowlitz County, Washington
January 1, 1993 Through December 31, 1993

Schedule Of Findings

1. City Should Separate Kelso Police Association (KPA) From City Business

DARE is a city sponsored program, primarily using public employees and equipment to educate community youths about the dangers of using illegal drugs. The city's DARE Fund also receives donations from various businesses, associations, and individuals in the community to help sponsor the DARE related expenditures.

Our review found an informal relationship between the city's DARE program and the KPA DARE fund raiser activities. Supplies for the KPA fund raising activities were stored on city premises, KPA donations were received by city employees on city premises, and other activity supporting these events occurred on city time. It is unclear in some cases whether donors to the fund raising events were informed whether the funds were being donated to the city or the association.

Because donated funds were received by city employees, the city property and time were used, confusion results regarding the intent of the individuals making the donations. This, in turn, results in confusion regarding ownership of those funds as the donors intent controls such ownership. Some funds from these events were deposited in a KPA DARE checking account and some of the funds were subsequently transferred to the city. Funds, however, intended by the donor to be for the benefit of the city Dare Fund are public funds and must be immediately deposited with the city treasurer and spent subject to the restrictions on public funds.

By allowing a private organization to use city time, employees, and facilities in fund raising efforts without an agreement establishing consideration to be received, the city may violate Washington State Constitution, Article VIII, Section 7, prohibiting gifts of public funds.

We reviewed the records of the KPA DARE checking account and identified \$1,030.85 in expenditures which the city officials stated would not have been approved had such expenditures been under their control. The KPA purchased a cellular phone costing \$535.85 and also paid \$495.00 to Context Associated for a personal development seminar.

Because the relationship between the city and the association is not clear, the donor intent cannot be determined, the city may have been deprived of funds which belong to it and which were spent on items which would not have been proper expenditures for public funds. Additionally, the city risks diminished contributions and participation in the DARE program should impropriety occur in DARE related accounts not under the city's control.

We recommend all funds intended for the city's DARE program be deposited into the city treasurer's DARE account. We also recommend the city not allow public resources to be used on behalf of the KPA unless a written agreement establishes the public benefit of

such activity.

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Schedule Of Federal Findings

1. The City Should Improve Its Accounting For Fixed Assets

The city does not adequately account for all of its fixed assets. Specifically, it has not:

- a. Established or maintained subsidiary ledgers for fixed assets.
- b. Performed a comprehensive physical inventory of fixed assets.

The city also does not account for real and personal property purchased with grant funds in accordance with federal requirements. Improved accounting procedures for fixed assets would:

- a. Provide accountability for city assets.
- b. Enable the city to meet grant accounting requirements for assets purchased with federal funds.
- c. Provide better audit trails, thereby improving internal controls over fixed assets and reducing audit costs.
- d. Permit the city to calculate the gain or loss on the disposition of assets.

The city's failure to account for property in a manner which identifies assets donated by the federal government or purchased with federal grant funds violates the "Common Rule" for *Uniform Administration Requirements for Grants and Cooperative Agreements*, Section .32, which states in part:

. . . (d) Management Requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, at a minimum, meet the following requirements:

(1) Property records must be maintained that include a description of the property . . . identification number . . . the source of the property, who holds title . . . acquisition date . . . cost . . . location, use and condition of the property . . .

(2) A physical inventory of the property must be taken and the results reconciled with the property records every two years.

When the Kelso Airport was sold to the Kelso/Longview Regional Airport Authority (KLRAA) during 1993, land and fixed assets purchased in part with federal funds, were

transferred to KLRAA. Because the city did not satisfactorily account for its fixed assets, it could not adequately document the calculation of gain or loss on the sale of the airport.

The city did not use its federal financial assistance to purchase any equipment during the 1993 audit period. However, the requirement also applies to equipment previously purchased with federal funds.

These weaknesses in accounting for the city's fixed assets contributed to the qualified financial opinion discussed in our Independent Auditor's Report on Financial Statements and Additional Information, and exposed the city to the possibility of errors and irregularities which might not be discovered in a timely manner.

These discrepancies have been reported in each annual audit report since 1987. During calendar year 1994, the city assigned a higher priority to fixed asset accountability, and hired an independent firm to assist in this effort.

We recommend the city continue its efforts to improve the fixed asset accounting system by:

- a. Establishing and maintaining subsidiary ledgers for fixed assets.
- b. Recording all changes in fixed assets in a timely manner.
- c. Reconciling subsidiary ledgers with the general ledger control account.
- d. Performing a comprehensive physical inventory of fixed assets.
- e. Resolving any differences in fixed assets between the physical inventory, the account subsidiary ledgers, and the general ledger control account.